

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**CONSOLIDATED PERSONAL PROPERTY SHIPPING OFFICE,
FRANKFURT, GERMANY**

Report Number 91-101

June 21, 1991

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Department of Defense

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DEPARTMENT OF DEFENSE
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June 21, 1991

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (FINANCIAL
MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL
MANAGEMENT AND COMPTROLLER)

SUBJECT: Report on the Hotline Audit of the Consolidated
Personal Property Shipping Office, Frankfurt, Germany
(Report No. 91-101)

This is our final report on the Hotline Audit of the Consolidated Personal Property Shipping Office (CPPSO), Frankfurt, Germany, for your information and use. Comments on a draft of this report were considered in preparing the final report. We made the audit from May through August 1990 to determine the validity of a Hotline complaint made to the Office of the Inspector General, DoD. The complainant alleged that a single commercial carrier was receiving preferential treatment by CPPSO, Frankfurt, in the distribution of outbound personal property (household goods and unaccompanied baggage) traffic. Traffic represents the weight of personal property shipments processed by CPPSO, Frankfurt. Specific audit objectives were to determine if personal property shipments made by CPPSO, Frankfurt, were properly classified for distribution purposes, determine if carriers were offered shipments to distribute weight (traffic) in accordance with applicable regulations and terms of the rate solicitation, and evaluate applicable internal controls. During the 12-month period ending March 31, 1990, CPPSO, Frankfurt, processed about 16,600 outbound international personal property shipments and there were about 150 carriers that were authorized to do business with CPPSO, Frankfurt.

The audit showed that the Hotline complaint was valid; and our results indicated a pattern of preferential treatment to one carrier in the distribution of outbound personal property traffic from CPPSO, Frankfurt. This information was referred to the Office of the Director, Inspector General Regional Office - Europe, for further investigation, which was ongoing as of the date of this report.

The CPPSO, Frankfurt, needed improved controls to classify shipments more accurately and better distribute personal property traffic among the carriers serving the CPPSO, Frankfurt. We assessed internal controls over the recording of transactions and maintenance of documentation to support traffic distribution

decisions. Controls were not adequate to preclude erroneous and unsupported transactions which allowed inequitable distribution of traffic among the carriers serving CPPSO, Frankfurt. The results of the audit are summarized in the following paragraph, and the details, audit recommendations, and management comments are in Part II of this report.

CPPSO, Frankfurt, was not distributing personal property traffic among commercial carriers to meet the traffic distribution percentages developed by the Military Traffic Management Command (MTMC). This condition indicated a pattern of preferential treatment for one carrier. However, the award of additional traffic to this carrier did not directly result in increased costs to DoD, but was contrary to DoD's published regulation and could discourage future competition among carriers that want to do business with CPPSO, Frankfurt. We recommended that the Chief, CPPSO, Frankfurt, establish management controls to ensure that outbound personal property traffic is distributed among carriers in accordance with DoD Regulation 4500.34-R. We also recommended that the Deputy Chief of Staff of the Air Force (Logistics and Engineering) require that a control be established within the Traffic Distribution System (TRAFDIST) that would automatically record changes made during the cycle to MTMC's traffic distribution percentages so that management could identify unauthorized changes (Page 5).

The audit identified internal control weaknesses as defined by DoD Directive 5010.38. Accountability for traffic distribution decisions was not maintained. Controls were not sufficient to prevent the misclassification of shipments as short notice or the inequitable assessment of refusal penalties. Adequate documentation was not maintained to support traffic distribution decisions or shipment refusal entries, and TRAFDIST had no controls to identify unauthorized changes to MTMC's traffic distribution percentages. Recommendations 1.a., 1.b., 1.c., 1.d., and 2. in this report, if implemented, will correct the weaknesses. We could not determine the monetary benefits to be realized by implementing the recommendations. A copy of this final report will be provided to the senior officials responsible for internal controls within the Department of the Army and the Department of the Air Force.

A draft of this report was provided to the Chief, Consolidated Personal Property Shipping Office, Frankfurt, Germany, through the Office of the Secretary of the Army (Financial Management) and to the Deputy Chief of Staff of the Air Force (Logistics and Engineering) on March 29, 1991. Comments from Chief, CPPSO, Frankfurt, were received on May 23, 1991, and comments from the Assistant Vice Chief of Staff of the Air Force were received on May 30, 1991. Management comments are summarized below. The complete texts of comments from the Chief, CPPSO, Frankfurt, and from the Assistant Vice Chief of Staff of the Air Force are provided in Appendix D and E, respectively.

Chief, CPPSO, Frankfurt, concurred with Recommendations 1.a., 1.b., and 1.c. and stated that standing operating procedures were implemented on January 29, 1991, to meet the intent of the recommendations. We consider these comments responsive. Chief, CPPSO, Frankfurt, also concurred with Recommendation 1.d. and proposed alternative actions to meet the intent of the recommendation. We consider these alternative actions to be responsive to Recommendation 1.d.

The Assistant Vice Chief of Staff of the Air Force concurred with Recommendation 2. and stated that the necessary software changes have been incorporated into version 7.0 of the TRAFDIST. We consider these comments responsive.

The management responses to a draft of this report conformed to the provisions of DoD Directive 7650.3. No unresolved issues existed on the audit recommendations, internal control deficiencies, or potential monetary benefits. Accordingly, additional management comments on the final report are not required.

The cooperation and courtesies provided to the audit staff are appreciated. A list of audit team members is in Appendix H. If you have any questions concerning this report, please contact Mr. John Gebka at (703) 614-6206 (DSN 224-6206) or Mr. Albert L. Putnam at (703) 693-0627 (DSN 223-0627). This report is being distributed to activities listed in Appendix I.



Edward R. Jones
Deputy Assistant Inspector General
for Auditing

Enclosure

cc:

Secretary of the Army

Secretary of the Air Force

Assistant Secretary of Defense (Production and Logistics)

REPORT ON THE HOTLINE AUDIT OF THE CONSOLIDATED
PERSONAL PROPERTY SHIPPING OFFICE (CPPSO), FRANKFURT, GERMANY

TABLE OF CONTENTS

	<u>Page</u>
TRANSMITTAL MEMORANDUM	i
PART I - INTRODUCTION	1
Background	1
Objective and Scope	3
Internal Controls	4
Prior Audit Coverage	4
Other Matters of Interest	4
PART II - FINDING AND RECOMMENDATIONS	5
Distribution of Personal Property Shipments	5
APPENDIX A - International Codes of Service	13
APPENDIX B - Analysis of Shipments Awarded as Short Notice	15
APPENDIX C - Analysis of Traffic Offered on Selected Traffic Channels	17
APPENDIX D - Chief, Consolidated Personal Property Shipping Office, Frankfurt, Germany, Comments	19
APPENDIX E - Assistant Vice Chief of Staff of the Air Force Comments	25
APPENDIX F - Report of Potential Monetary and Other Benefits Resulting from Audit	27
APPENDIX G - Activities Visited or Contacted	29
APPENDIX H - Audit Team Members	31
APPENDIX I - Final Report Distribution	33

Prepared by:
Logistics Support
Directorate
Project No. OLC-8009

REPORT ON THE HOTLINE AUDIT OF THE CONSOLIDATED
PERSONAL PROPERTY SHIPPING OFFICE (CPPSO), FRANKFURT, GERMANY

PART I - INTRODUCTION

Background

The audit was performed in response to a Hotline complaint made to the Office of the Inspector General, DoD, alleging that a single commercial carrier was receiving preferential treatment by the Consolidated Personal Property Shipping Office (CPPSO), Frankfurt, in the distribution of outbound personal property (household goods and unaccompanied baggage) traffic. The term traffic represents the weight of personal property shipments processed by the CPPSO.

The U.S. Army operates the CPPSO, Frankfurt, which processes inbound and outbound shipments of personal property for all DoD civilian and military personnel in the communities of Aschaffenburg, Darmstadt, Frankfurt, Hanau, Lindsey, Rhein-Main, and Wiesbaden, Germany. During the 12-month period ending March 31, 1990, CPPSO, Frankfurt, processed about 16,600 outbound international shipments. There were about 150 carriers authorized to do business with CPPSO, Frankfurt. The carriers were represented by eight German shipping agents who serviced the communities supported by CPPSO, Frankfurt. Agents were authorized to represent multiple carriers.

DoD Regulation 4500.34-R, "Personal Property Traffic Management Regulation," chapter 2, provides guidance for distributing personal property traffic among commercial carriers. Carriers who wish to participate in the international movement of DoD personal property must submit rates to move traffic between specific points of origin and destination (channel) on a 6-month cycle to Headquarters, Military Traffic Management Command (MTMC), Falls Church, Virginia. The 6-month cycles run from April 1 through September 30 and from October 1 through March 31 of a given year. Carriers must submit a rate for each traffic channel that they wish to serve. A traffic channel rate (for example, \$61.62 per 100 pounds) is the cost of moving personal property between two rate areas (for example, Frankfurt, Germany, and the state of Virginia) for a specific code of service during a cycle. A code of service is the method by which personal property is moved from origin to destination. Appendix A explains the different codes of service.

There are three traffic channel classifications. A Class 1 channel is one in which the carrier with the lowest rate should be offered 100 percent of the traffic. A Class 2 channel is where a preestablished percentage of traffic (traffic distribution percentage) should be offered to the carrier that submits the lowest rate. A Class 3 traffic channel is one in

1

which all carriers charge the same rate and are offered shipments sequentially, starting with the carrier with the best performance score in MTMC's International Carrier Evaluation Reporting System. The channel classification and distribution percentages were determined by MTMC based on historical traffic patterns and availability of carriers willing to service the channel.

The majority of traffic moved by CPPSO, Frankfurt, is in Class 2 channels. In a Class 2 channel, the carrier submitting the lowest rate becomes the primary carrier for the channel. Each carrier that agrees to move freight at the same rate as the primary carrier becomes an equalization carrier for that channel. Each equalization carrier should then be offered an equal share of the remaining traffic on a rotational basis not to exceed one-half of the primary carrier's percentage, unless the primary carrier refuses to accept its share of the traffic. For example, on a traffic channel with a traffic distribution percentage of 20 percent with one primary carrier and eight equalization carriers, the primary carrier should be offered 20 percent of the traffic and each equalization carrier should be offered 10 percent of the traffic. A third category of carrier for a particular traffic channel is known as a participating carrier. Participating carriers will move personal property traffic only at a rate higher than the rate of the primary and equalization carriers. Participating carriers may be offered traffic if the primary and all equalization carriers refuse the traffic.

In September 1989, CPPSO, Frankfurt, began using an automated system known as the Traffic Distribution System (TRAFDIST) to assist it in allocating and monitoring personal property traffic offered to authorized carriers. Before the start of each cycle, MTMC summarized, on computer disks, rate and performance data for approved carriers and forwarded the disks to the appropriate CPPSO for direct transfer into the TRAFDIST data base. MTMC also provided the traffic distribution percentages for each channel, which had to be manually entered into the TRAFDIST by CPPSO, Frankfurt, personnel. TRAFDIST automatically maintained the cumulative balance of weight offered, accepted, or refused by each carrier on each traffic channel as each shipment was processed throughout the cycle.

TRAFDIST was initially designed by the Air Force Communications Command, Gunter Air Force Base, Montgomery, Alabama, at the request of the Deputy Chief of Staff of the Air Force (Logistics and Engineering) to assist Air Force personal property shipping activities. The system is used by approximately 225 DoD shipping offices worldwide.

Objective and Scope

The overall audit objective was to determine the validity of allegations regarding the distribution of personal property traffic. Specific audit objectives were to determine if personal property shipments made by CPPSO, Frankfurt, were properly classified for distribution purposes, determine if carriers serving CPPSO, Frankfurt, were offered shipments so that weight was distributed in accordance with applicable regulations and terms of the rate solicitation, and evaluate related internal controls.

During the 12-month period (cycle 58 from April 1, 1989, through September 30, 1989, and cycle 59 from October 1, 1989, through March 31, 1990), CPPSO, Frankfurt, distributed about 16,600 outbound international shipments to carriers. Our review concentrated on specific transactions cited in the Hotline complaint that were associated with outbound shipments made in cycle 58. Additionally, we reviewed selected transactions in cycle 59 to determine if conditions that occurred in cycle 58 continued in cycle 59 and to evaluate the assessment of refusal penalties by CPPSO, Frankfurt. A refusal penalty is the estimated weight of the shipment that is charged against a carrier who refuses to move the shipment.

We reviewed 141 shipments that were awarded as short notice shipments to determine whether these shipments were properly coded in the TRAFDIST. DoD Regulation 4500.34-R provides that a shipment offered to a carrier within 5 workdays of the required pickup date will be classified as short notice. We also reviewed shipment files for 117 offerings cited in the Hotline complaint where CPPSO, Frankfurt, records indicated that the carriers refused to accept a shipment offered. The complainant alleged that the carriers' agents were never offered these shipments. We also analyzed the application of refusal penalties on 3,682 refusals recorded on the CPPSO, Frankfurt, records for cycle 59. In addition, we performed a detailed analysis of four traffic channels (Class 2) to determine whether personal property traffic was being allocated to meet the traffic distribution percentages developed by MTMC. See Appendix G for a list of activities visited or contacted.

This economy and efficiency audit was made from May through August 1990 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly included such tests of internal controls as were considered necessary.

Internal Controls

We evaluated internal control procedures over CPPSO, Frankfurt's distribution of outbound personal property traffic and found major weaknesses. Specifically, we reviewed internal controls to determine if CPPSO, Frankfurt, personnel were properly coding shipments in the TRAFDIST as short notice, accurately assessing refusal penalties against carriers, properly documenting carriers' refusals, and offering traffic equitably among carriers in accordance with DoD Regulation 4500.34-R. We also reviewed system controls over the authorized traffic distribution percentages used in the TRAFDIST. Lack of management controls allowed CPPSO, Frankfurt, personnel to miscode shipments as short notice and to inequitably assess refusal penalties against carriers. Further, documentation was not maintained to show accountability for distribution decisions or to support shipment refusal entries recorded in the TRAFDIST. Lack of system controls in the TRAFDIST made it possible for distribution percentages to be changed during the cycle without being recorded by the system. These internal control weaknesses jeopardized the integrity of the distribution process at CPPSO, Frankfurt. Further details are discussed in Part II of this report.

Prior Audit Coverage

There were no prior audits performed in this subject area in the past 5 years.

Other Matters of Interest

This audit disclosed that erroneous and unsupported transactions were made that indicated a pattern of preferential treatment to one carrier in the distribution of outbound personal property traffic. This information was referred to the Office of the Director, Inspector General Regional Office-Europe, for further investigation, which was ongoing as of the date of this report.

PART II - FINDING AND RECOMMENDATIONS

Distribution of Personal Property Shipments

FINDING

The Consolidated Personal Property Shipping Office (CPPSO), Frankfurt, was not distributing personal property traffic among commercial carriers to meet the traffic distribution percentages developed by MTMC through the application of procedures prescribed in DoD Regulation 4500.34-R. This occurred because management and automated controls over the distribution process were inadequate. Specifically,

- shipments were improperly coded as short notice to award traffic to a preferred carrier.

- refusal penalties were inequitably assessed against carriers.

- documentation was not maintained to show accountability for distribution decisions, or to support shipment refusal and penalty entries recorded in the TRAFDIST.

- changes could be made to the authorized traffic distribution percentages in the TRAFDIST without being documented by the system.

Based on our review of selected transactions associated with shipments offered between March 31, 1989 and April 1, 1990, about \$239,000 of short notice shipments were improperly awarded, 866,000 pounds of refusal penalties were incorrectly assessed, and 49.6 percent of shipment refusals cited in the Hotline complaint lacked supporting documentation. A pattern of preferential treatment existed in the distribution of traffic to a primary carrier.

DISCUSSION OF DETAILS

Background. To select a carrier for a shipment, CPPSO, Frankfurt, personnel enter the estimated weight of the shipment and the required pickup date into the TRAFDIST. For shipments on a Class 2 channel, the TRAFDIST automatically selects the carrier to whom the shipment should be offered after consideration of weight already offered to the carriers on that traffic channel during the cycle and the traffic distribution percentages manually entered into the TRAFDIST.

CPPSO, Frankfurt, personnel may either contact the selected carrier's agent to offer the shipment or manually override the selection by coding it with an "M" (manual). When an override of a TRAFDIST selection occurs, TRAFDIST records the name of the

carrier that was manually overridden and makes no adjustment to the carrier's cumulative balance of weight offered. If the agent that was selected by TRAFDIST accepts the shipment, CPPSO, Frankfurt, personnel code the shipment with an "A" to indicate acceptance. The TRAFDIST then adds the estimated weight to that carrier's cumulative balance of weight offered and recomputes the percentage share of weight offered to each carrier on the channel. If the agent refuses the shipment, CPPSO, Frankfurt, personnel code the shipment with an "R" to indicate refusal. TRAFDIST adds the estimated weight offered, a refusal penalty, to the carrier's cumulative balance of weight, recomputes the percentage share of weight, and proceeds to select the next carrier to be offered the shipment. This is the process followed for all shipments except short notice shipments.

On short notice shipments (shipments offered to a carrier within 5 workdays of the required pickup date), CPPSO, Frankfurt, personnel code the agent's acceptance with a "Z". The TRAFDIST does not charge the carrier with the estimated weight of short notice shipments. If the agent refuses the short notice shipment, the shipment is coded with an "NC" to indicate no charge, and TRAFDIST does not assess a refusal penalty against the carrier.

Coding of Short Notice Shipments Accepted by Carriers.
CPPSO, Frankfurt, personnel were improperly coding shipments as short notice (Code Z) to award shipments to a preferred carrier. This was accomplished after manually overriding carriers that were selected by TRAFDIST. CPPSO, Frankfurt, personnel should not have overridden the carriers selected by TRAFDIST without offering them the shipment and either coding the TRAFDIST with an "A" indicating acceptance or an "R" indicating refusal. The coding of a shipment with a "Z" that is not a true short notice shipment will alter the rotational sequence of future shipment offerings. The TRAFDIST will not reflect the weight of these shipments against the carriers that receive the invalid short notice shipments. This will result in other carriers being offered less than their distribution percentage share of the traffic as prescribed by MTMC.

To encourage carriers to respond on short notice, DoD Regulation 4500.34-R provides that valid short notice shipments may be offered to any carrier, regardless of the amount of traffic already offered the carrier on that traffic channel during the cycle. Therefore, a carrier's acceptance or refusal of a valid short notice shipment should not alter the rotational sequence of future offerings among carriers by the TRAFDIST automated selection process.

Based on analysis of the traffic distribution records (TDR) for all channels for cycles 58 and 59, we identified 141 shipments costing an estimated \$343,020 that were awarded as short notice

shipments. To determine whether these shipments were valid short notice shipments, we calculated the number of working days between the date the shipment was offered and the required pickup date. Of the 141 shipments, 60 were valid short notice shipments. The remaining 81 (57 percent) shipments, costing about \$239,065 (with estimated weights totaling 375,801 pounds), should not have been offered and awarded as short notice. Of the 81 invalid short notice shipments, 73 shipments, costing about \$228,694 (95.6 percent of the cost of the invalid shipments) were awarded to one primary carrier, Carrier A. Carrier A was the primary carrier on most channels from CPPSO, Frankfurt, during cycles 58 and 59. The remaining eight invalid short notice shipments with weights totaling 17,745 and an estimated cost of \$10,371 were awarded to seven other carriers (see Appendix B).

Because the estimated weight (375,801 pounds) of these invalid short notice shipments were not added to the carriers' cumulative balances of weight offered, the cumulative percentages computed by TRAFDIST were understated. As a result, TRAFDIST could offer these carriers future shipments that they should not have been eligible for. Conversely, eligible carriers would not be offered their proportionate share of the traffic. Further analysis of four traffic channels for cycle 58 showed that Carrier A exceeded its proportionate share of the channel traffic, while some equalization carriers were below their proportionate share at the time these shipments were offered (see Appendix C).

A CPPSO, Frankfurt, employee informed us that he received specific instructions in September 1990 from another employee to award additional shipments to Carrier A because Carrier A had complained of not receiving its proportionate share of traffic during the cycle. To facilitate this process, the TRAFDIST selected shipments were manually overridden and erroneously coded as short notice (Code Z) in the TRAFDIST. As a result, no equalization carriers were given the opportunity to accept any of the 72 shipments being offered in September. This also made Carrier A available to be offered additional shipments through the normal selection process because the weight of the invalid short notice shipments was not included in Carrier A's cumulative weight balances when the carrier distribution percentages were recomputed by TRAFDIST.

We attributed this condition to the lack of adequate management controls over the monitoring of traffic offered among carriers throughout the cycle and the invalid coding of shipments as short notice in the TRAFDIST by CPPSO, Frankfurt, personnel. Management did not determine how much traffic was offered to each carrier by channel to ensure that traffic was being distributed in accordance with DoD Regulation 4500.34-R. Management did not periodically review and evaluate the coding of short notice shipments in the TRAFDIST or require that appropriate supervisory authorization be obtained and documented in the files before the TRAFDIST carrier selections were manually overridden.

Refusal Penalties Against Carriers. CPPSO, Frankfurt, personnel were not properly coding the refusal of shipments by carrier agents, which resulted in the inequitable assessment of refusal penalties against carriers. DoD Regulation 4500.34-R requires that a refusal penalty, equal to the estimated weight of the shipment offered, be assessed against carriers that refuse other than short notice shipments. No penalties are assessed for refusing a short notice shipment. Improper coding of these refusals could be used to bias the TRAFDIST selection process to favor certain carriers.

We analyzed 3,682 shipment refusals recorded in CPPSO, Frankfurt, TDR's during cycle 59. Refusal penalties were not being properly or consistently assessed by the TRAFDIST because of erroneous coding of refusals by CPPSO, Frankfurt, personnel. We found cases where refusal penalties were assessed, but should not have been, and cases where refusal penalties should have been assessed, but were not. Erroneous refusal penalties, totaling 630,177 pounds, were assessed against 35 carriers who refused valid short notice shipments. Three other carriers were not assessed refusal penalties, totaling 236,387 pounds, when they refused 86 non-short notice shipments. This included Carrier A which refused 84 of the 86 shipments and was not assessed 231,946 pounds in refusal penalties.

Erroneous coding of refusals caused the TRAFDIST to make carrier selection decisions that favored Carrier A. Management needs to establish controls to prevent erroneous penalties from being assessed.

Documenting Traffic Distribution Decisions. CPPSO, Frankfurt, personnel were not maintaining adequate documentation to show accountability for distribution decisions, or to support shipment refusal and penalty entries recorded in the TRAFDIST. Generally, CPPSO, Frankfurt, personnel offered shipments telephonically and annotated the carriers' acceptance or refusal on the AETV Form 583, "Personal Property Outbound Data," in accordance with an unwritten CPPSO, Frankfurt, booking procedure. There was no accountability over the entries that were made on the AETV Form 583 or in the TRAFDIST because CPPSO, Frankfurt, did not require offerers to be identified in the records.

We reviewed 117 refusals of shipments recorded on the TDR's that carriers alleged were not offered to their agents. No entries were made on the AETV Form 583 that indicated that carrier agents were contacted on 58 (49.6 percent) of these shipments. There was no accountability over the entries that were made on the AETV Form 583 on the remaining 59 refusals because the offerers were not identified. Also, we could not determine whether the agent refused a shipment, because the agents were not required to state in writing their refusal of shipments.

We visited eight carrier agents to determine the type of records maintained by each of them. Only one agent maintained records of shipments refused. This agent's records, however, showed only those shipments refused by telex or facsimile. No record of refusals that may have been made by telephone was maintained. Therefore, we found no records on the 117 refusals at the offices of the agents.

CPPSO, Frankfurt, did not require carriers to refuse shipments in writing. This, coupled with the inadequate documentation procedures used by CPPSO, Frankfurt, for shipment refusals, weakened system controls. Weakened system controls made it possible to charge carriers with invalid refusals and made CPPSO, Frankfurt, vulnerable to carrier allegations that could not be refuted.

To prevent the entry of unsupported refusals on the TDR's, CPPSO, Frankfurt, should require agents to refuse shipments in writing (that is, facsimile, telex, etc.) and have this documentation placed in the shipment file. Furthermore, a log should be maintained in each shipment file to indicate the carriers selected, agents contacted, date of contact, and whether the carriers accepted or refused the shipment. The log should also include the signatures of the CPPSO, Frankfurt, personnel that booked the shipment. Management should perform periodic reviews of these records to ensure that refusals recorded on the TDR's are valid. These actions would provide controls to assist CPPSO, Frankfurt, in distributing traffic in accordance with DoD Regulation 4500.34-R.

TRAFDIST Controls. Traffic distribution percentages by channel in the TRAFDIST could be changed during the cycle without being documented by the system. During our analysis of the four traffic channels referenced in Part I of this report, we noted that TRAFDIST sometimes offered Carrier A a shipment although the carrier had already exceeded its share of the traffic at the time the shipment was offered. We discussed the results of our analysis with the TRAFDIST programmers of Headquarters, Computer Systems Division at the Air Force Communications Command, Montgomery, Alabama, to determine how this could occur. The programmers indicated that it was possible to change the distribution percentages during the cycle. The TRAFDIST system had no controls to document whether any changes were made. Changes to the percentages could make the TRAFDIST alter the selection process to favor a specific carrier. We could not confirm that the distribution percentages had actually been manipulated on the four channels reviewed. However, a control in the TRAFDIST to record changes made during the cycle would provide the means to detect unauthorized changes to these percentages.

Overall Traffic Distribution. Our review showed that traffic was not distributed by CPPSO, Frankfurt, in accordance with DoD Regulation 4500.34-R. We found erroneous and unsupported transactions in the TRAFDIST associated with short notice shipments, assessment of refusal penalties, and recording of shipment refusals. These transactions indicated a pattern of preferential treatment for Carrier A. CPPSO, Frankfurt, personnel did not maintain documentation to support traffic distribution decisions and TRAFDIST had no controls to identify unauthorized changes to the distribution percentages. We could not identify the specific percentages of traffic awarded to every carrier on each channel during cycle 59. However, according to TRAFDIST records, Carrier A received about 71 percent of the traffic awarded by CPPSO, Frankfurt, during cycle 59.

The award of this traffic to Carrier A did not directly result in additional costs to DoD because Carrier A was the primary carrier on most channels during the cycles reviewed and it charged the lowest rates. However, the failure of CPPSO, Frankfurt, to equitably distribute traffic was contrary to DoD's published regulation and could result in more carriers refusing to match the low rate, which could increase costs in future cycles.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Chief, Consolidated Personal Property Shipping Office, Frankfurt, Germany, establish management controls to ensure that outbound personal property traffic is distributed among carriers in accordance with DoD Regulation 4500.34-R, "Personal Property Traffic Management Regulation." These controls should require that:

a. appropriate supervisory approval be obtained before shipments are classified, coded, or awarded as short notice.

b. periodic management reviews of the traffic distribution records be conducted during the cycle to ensure that shipment classifications, penalty assessments, and carrier refusals of shipments are correctly coded in the Traffic Distribution System.

c. shipment offers made by Consolidated Personal Property Shipping Office, Frankfurt, personnel and refusals made by carrier agents be documented in writing (that is, telex, facsimile, etc.) and maintained in the shipment files.

d. documentation be maintained in the shipment files to identify the Consolidated Personal Property Shipping Office, Frankfurt, employee that made decisions associated with classification, distribution, and recording of refusals and penalties.

2. We recommend that the Deputy Chief of Staff of the Air Force (Logistics and Engineering) require that a control be established within the Traffic Distribution System to automatically record all changes made during a cycle to preestablished traffic distribution percentages provided by the Military Traffic Management Command for each traffic channel.

MANAGEMENT COMMENTS

The Chief, Consolidated Personal Property Shipping Office (CPPSO), Frankfurt, Germany, through the Office of the Deputy Assistant Secretary of the Army (Logistics), concurred with Recommendations 1.a., 1.b., and 1.c. The Chief, CPPSO, Frankfurt, stated that standing operating procedures were implemented on January 29, 1991, to meet the intent of these recommendations.

Chief, CPPSO, Frankfurt, also agreed with the intent of Recommendation 1.d., which required that documentation be maintained in the shipment files to identify the CPPSO employee that made the traffic distribution decision. However, the Chief, CPPSO, Frankfurt, viewed the recommendation as somewhat extreme in terms of additional workload that would be required to implement the recommendation on all TDR transactions. Therefore, the Chief, CPPSO, Frankfurt, proposed an alternative solution that would require each employee handling the TDR transaction to enter his or her initials in the remarks section of the automated TRAFDIST system. The Chief, CPPSO, Frankfurt, considers this corrective action along with the corrective action taken in response to Recommendation 1.a. requiring that exceptional transactions, such as manual bookings and short notice shipments, be justified by a memorandum signed by either the Supervisory Shipment Assistant or Traffic Manager, and Recommendation 1.b., requiring that monthly TDR reviews be conducted, as sufficient to accomplish the intent of Recommendation 1.d. The Chief, CPPSO, Frankfurt, also recommended that the Deputy Chief of Staff of the Air Force (Logistics and Engineering) require that a control be established in the TRAFDIST system that would require each employee to enter a preassigned code, which would authorize and identify the person processing the transaction in the TDR.

The Assistant Vice Chief of Staff of the Air Force concurred with Recommendation 2., and stated that the necessary software changes have been incorporated into version 7.0 of TRAFDIST, that was issued in April 1991.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

The comments provided by the Chief, CPPSO, Frankfurt, on Recommendations 1.a., 1.b., and 1.c. are considered responsive. We consider the alternative actions proposed in response to

Recommendation 1.d. acceptable. We also agree with the Chief, CPPSO, Frankfurt, that the establishment of an automated control within the TRAFDIST system to require each employee to enter a preassigned access code would be a further refinement to meet the intent of Recommendation 1.d. The Chief, CPPSO, Frankfurt, should propose the establishment of this refinement directly to the Deputy Chief of Staff of the Air Force (Logistics and Engineering).

The comments provided by the Assistant Vice Chief of Staff of the Air Force on Recommendation 2. are considered responsive.

INTERNATIONAL CODES OF SERVICE

A "code of service" is the method by which personal property is moved from origin to destination. The seven international codes of service used to move outbound shipments from Consolidated Personal Property Shipping Office, Frankfurt, Germany, are described below.

International Door-to-Door Container (Code 4). Movement of household goods in the Military Traffic Management Command (MTMC) approved door-to-door shipping containers (wooden boxes) whereby a carrier provides transportation from origin residence to ocean terminal, ocean transportation to port of discharge, and land transportation service to destination residence without rehandling the contents of the containers.

International Door-to-Door Container Government Ocean Transportation (Code 5). Movement of household goods in MTMC approved door-to-door shipping containers whereby a carrier provides land transportation from origin residence to military ocean terminal, the Military Sealift Command provides ocean transportation to a designated port of discharge, and the carrier provides land transportation service to destination residence without rehandling the contents of the containers.

International Door-to-Door Air Container (Code 6). Movement of household goods whereby the carrier provides containerization at the origin residence, land transportation to the airport nearest origin residence that can provide required services, air transportation to the airport nearest destination that can provide required services, and land transportation to the destination residence.

International Land-Water-Land Baggage (Code 7). Movement of unaccompanied baggage (that is, professional books, papers, and equipment shipped separately from the bulk of personal property) whereby the carrier provides packing and pickup at origin residence, surface transportation to destination, cutting of the banding and opening of the boxes at the destination residence.

International Land-Air-Land Baggage (Code 8). Movement of unaccompanied baggage whereby the carrier provides packing and pickup at origin residence, transportation to the airport, air transportation to the destination airport, surface transportation to destination, and cutting of the banding and opening of the boxes at the destination residence.

INTERNATIONAL CODES OF SERVICE (Continued)

International Door-to-Door Container - MAC (Code T).
Movement of unaccompanied baggage whereby the carrier provides containerization at the origin residence and transportation to the designated Military Air Command (MAC) terminal. MAC provides terminal services at both origin and destination and air transportation to the designated MAC destination terminal. The carrier provides transportation to the destination residence.

International Land-Air (MAC)-Land Baggage (Code J).
Movement of unaccompanied baggage whereby the carrier provides packing and pickup at the origin and transportation to the designated MAC terminal. MAC provides terminal services at both origin and destination and air transportation to the designated MAC destination terminal. The carrier provides transportation to destination from MAC terminal and cutting of the banding and opening of the boxes at the destination residence.

ANALYSIS OF SHIPMENTS AWARDED AS SHORT NOTICE *
APRIL 1, 1989 THROUGH MARCH 31, 1990

Carrier Code Assigned by Audit	Total Shipments Awarded as Short Notice			Valid Shipments Awarded As Short Notice			Invalid Shipments Awarded As Short Notice		
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
	Number	Weight (Pounds)	Cost	Number	Weight (Pounds)	Cost	Number (A-D)	Weight (Pounds) (B-E)	Cost (C-F)
(A)	104	435,974	\$277,525	31	77,618	\$ 48,830	73	358,356	\$288,695
(B)	1	700	452	1	700	452			
(C)	3	10,800	6,870	2	7,300	4,557	1	3,500	2,313
(D)	1	600	385	1	600	385			
(E)	1	5,500	3,356	1	5,500	3,356			
(F)	1	3,700	2,551	1	3,700	2,551			
(G)	1	700	460	1	700	460			
(H)	2	2,450	1,511	2	2,450	1,511			
(I)	1	4,585	2,721	1	4,585	2,721			
(J)	1	2,500	1,301	1	2,500	1,301			
(K)	2	8,100	4,917	1	7,100	4,496	1	1,000	421
(L)	1	3,000	1,961				1	3,000	1,961
(M)	1	2,700	1,868	1	2,700	1,868			
(N)	1	2,200	1,393	1	2,200	1,393			
(O)	2	2,261	1,394	2	2,261	1,394			
(P)	3	10,465	5,244	2	7,550	3,962	1	2,915	1,282
(Q)	1	900	549	1	900	549			
(R)	5	13,400	8,160	3	7,400	4,462	2	6,000	3,698
(S)	1	7,400	4,646	1	7,400	4,646			
(T)	3	12,780	8,094	3	12,780	8,094			
(U)	1	500	346				1	500	346
(V)	1	1,500	1,029	1	1,500	1,029			
(W)	2	2,570	1,750	1	2,040	1,400	1	530	350
(X)	1	6,900	4,536	1	6,900	4,536			
Total	141	542,185	\$343,019	60	166,384	\$103,953	81	375,801	\$239,066

* A shipment offered to a carrier within 5 workdays of the pickup date is classified as short notice. Per DoD Regulation 4500.34-R, the acceptance or refusal of a short notice shipment should not affect the distribution of other traffic to these carriers during the rate cycle.

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ANALYSIS OF TRAFFIC OFFERED ON SELECTED TRAFFIC CHANNELS

Traffic Channel	Primary Carrier ("Carrier A")		Equalization Carriers			
	Total Traffic Awarded (Pounds) 1/ (A)	Traffic Distribution Percentage 2/ (B)	Excess Percentage Offered		Required	
			Traffic Offered 3/ (Pounds) (C)	Percentage (D) (C/A)	Number of Carriers (G)	Per Carrier (H)
				(E) (D-B)	Traffic Offered 3/ (Pounds) (F)	Number of Carriers Below Required Percent (I)
Cycle 58						
U.S. 25 - Code 4	1,395,068	10	429,253	30.7	3,438,794	1.8
U.S. 45 - Code 4	1,469,070	10	456,607	31.0	3,923,498	1.8
Cycle 59						
U.S. 25 - Code 4	95,428	10	50,469	52.8	172,641	4.7
U.S. 25 - Code T	801,226	10	654,755	81.7	820,713	5.0
U.S. 45 - Code 4	1,482,728	10	1,082,104	72.9	1,258,337	5.0
U.S. 45 - Code T	12,450	10	1,100	8.8	0	5.0

1/ Estimated weight of all shipments awarded on specified channel for each cycle including Code Z (short notice) shipments.

2/ Preestablished percentage of traffic developed by the Military Traffic Management Command that should be offered to the primary carrier on the channel.

3/ Includes weight of shipments accepted and refusal penalties assessed on shipments other than short notice.

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DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
WASHINGTON, DC 20310-0103

22 May 1991

Assistant Inspector General, DOD, (Auditing)
MEMORANDUM FOR HQDA (SAIG-PA), ~~ATTN: MS. FLANAGAN,~~
~~WASHINGTON, D.C. 20310~~

SUBJECT: Draft Report on the Hotline Audit of the
Consolidated Personal Property Shipping
Office (CPPSO), Frankfurt, Germany
(Project No. OLC-8009)

Reference memorandum, Headquarters, United States
Army Europe and Seventh Army, dated 17 May 1991,
subject as above (attached).

This office reviewed the referenced memorandum
and provided copies to Office of the Deputy Chief of
Staff for Logistics (ODCSLOG) and the Military Traffic
Management Command (MTMC) for comment. This office as
well as ODCSLOG and MTMC concur with the memorandum as
written.

E. A. Orsini
Eric A. Orsini
Deputy Assistant Secretary of the Army
(Logistics)
OASA(I,L&E)

Attachment

CF: ODCSLOG (DALO-TSP)
MTMC (MTIR)



DEPARTMENT OF THE ARMY
HEADQUARTERS, UNITED STATES ARMY, EUROPE, and SEVENTH ARMY
APO NEW YORK 08403



REPLY TO
ATTENTION OF

AEAGX-IA (36-2b)

17 MAY 1981

MEMORANDUM FOR HQDA (DAIG-PA), WASH DC, 20310-1734

SUBJECT: DODIG Draft Report on the Hotline Audit of the
Consolidated Personal Property Shipping Office (CPPSO),
Frankfurt, Germany (Project No. OLC-8009) (90-H)

1. References:

a. AR 36-2, Processing Internal and External Audit Reports
and Followup on Findings and Recommendations, 6 Sep 86.

b. Memorandum, HQDA, SAIG-PA, 4 Apr 91, SAB, forwarding
subject DODIG draft report.

2. HQ USAREUR/7A has reviewed the subject DODIG draft report
and agrees with findings and recommendations (addressed to the
Chief, CPPSO, Frankfurt, Germany), and the enclosed V Corps
corrective action reply.

3. The HQ USAREUR/7A POC for DODIG audits is Ms. Willenburg,
AV 370-7906.

FOR THE COMMANDER IN CHIEF:

Encl

WILLARD M. BURLESON, JR.
Major General, GS
Chief of Staff



DEPARTMENT OF THE ARMY

HEADQUARTERS V CORPS
APO NEW YORK 09079-0700

ONLY TO
ATTENTION OF

AETV-DLC

29 APR 91

MEMORANDUM THRU Assistant Chief of Staff, G4, Headquarters, V Corps
APO New York 09079-0700

FOR HQS, V Corps, Internal Review and Compliance Office, ATTN:
AETV-IR, APO 09079

SUBJECT: DOD Draft Report on the Hotline Audit of the Consolidated
Personal Property Shipping Office, Frankfurt, Germany (Project No.
OLC-8009)

1. Reference: Memorandum from the Inspector General, Department of
Defense dated 29 March 1991, subject as above.

2. a. Finding: "The Consolidated Personal Property Shipping Office
(CPPSO) Frankfurt, was not distributing personal property traffic
among commercial carriers to meet the traffic distribution
percentages developed by MTMC through the application of procedures
prescribed in DOD Regulation 4500.34-R. This occurred because
management and automated controls over the distribution process were
inadequate. Specifically,

- Shipments were improperly coded as short notice to award
traffic to a preferred carrier.

- Refusal penalties were inequitably assessed against
carriers.

- Documentation was not maintained to show accountability
for distribution decisions, or to support shipment refusal and
penalty entries recorded in the TRAFDIST.

- Changes could be made to the authorized traffic
distribution percentages in the TRAFDIST without being documented by
the system.

Based on our review of selected transactions associated with
shipments offered between March 31, 1989 and April 1, 1990, about
\$239,000 of short notice shipments were improperly awarded, 866,000
pounds of refusal penalties were incorrectly assessed, and 49.6
percent of shipment refusals cited in the Hotline complaint lacked
supporting documentation. A pattern of preferential treatment
existed in the distribution of traffic to a primary carrier."

AETV-DLC

SUBJECT: Draft Report on the Hotline Audit of the Consolidated Personal Property Shipping Office, Frankfurt, Germany (Project No. OLC-8009)

b. Recommendations for Corrective Action: "We recommend that the Chief, Consolidated Personal Property Shipping Office, Frankfurt, Germany, establish management controls to ensure that outbound personal property traffic is distributed among carriers in accordance with DOD Regulation 4500.34-R, "Personal Property Traffic Management Regulation." These controls should require that:

(1) Appropriate supervisory approval be obtained before shipments are classified, coded, or awarded as short notice.

(2) Periodic management reviews of the traffic distribution records be conducted during the cycle to ensure that shipment classifications, penalty assessments, and carrier refusals of shipments are correctly coded in the Traffic Distribution System.

(3) Shipment offers made by Consolidated Personal Property Shipping Office, Frankfurt, personnel and refusals made by carrier agents be documented in writing (that is, telex, facsimile, etc.) and maintained in the shipment files.

(4) Documentation be maintained in the shipment files to identify the Consolidated Personal Property Shipping Office, Frankfurt, employee that made decisions associated with classification, distribution, and recording of refusals and penalties."

c. Action Taken: Concur

3. A review of the draft report referenced was made by this office, and the following comments or corrective actions are provided regarding the report's recommendations:

a. Standing Operating Procedures (SOP) for the Traffic Distribution Record (TDR) were instituted on 29 January 1991 to ensure appropriate supervisory approval is obtained before shipments are classified, coded or awarded as short notice shipments. Specifically, this recommendation is addressed under paragraph 4c(2) (a) of the SOP that requires all manual bookings, short notice or otherwise, be justified by a memorandum signed by either the Supervisory Shipment Assistant or the Traffic Manager.

b. The recommendation that periodic management reviews of the TDR be conducted during the cycle is addressed by the TDR SOP under paragraphs 4d(1) to (4) requiring monthly reviews by the Supervisory Shipment Assistant and the Traffic Manager.

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SUBJECT: Draft Report on the Hotline Audit of the Consolidated
Personal Property Shipping Office, Frankfurt, Germany (Project No.
OLC-8009)

c. All shipment offerings are required by the TDR SOP to be made and responded to in writing via electronic means, e.g. telex paragraph 4c(2) (f) and (g) of the TDR SOP.

d. The recommendation that documentation be maintained to support every TDR action by identifying the individual responsible for the action may be valid. However, this recommendation is viewed as somewhat extreme in terms of additional workload it would entail. With over 15,000 TDR transactions performed annually, normal documentation would be excessive and counter productive for an automated program. Accordingly, the following corrective action is proposed:

(1) In all cases, exceptional TDR requirements, e.g. short notice shipments, manual selections, etc. will be supported by a memorandum for record as indicated in our TDR SOP.

(2) The vast majority of TDR transactions are routine, automated procedures. Consequently, to accommodate the recommendation for documentation of routine TDR transactions, documentation should take advantage of the automation system used. As a result, we propose documentation be accomplished by placing the employee's initials in the remarks column of each record. This will identify the person responsible for making every TDR entry at the time the entry is made.

(3) Additionally, periodic and/or monthly reviews of the TDR by management as required by the TDR SOP will include checking initial entries on all transactions. The end of cycle run of the TDR will also contain these initials, and it will serve as a permanent record of who made the entries as well.

(4) While these "in house" measures are a step in the right direction, they are not fail-safe as control measures. Consequently it is recommended that the Deputy Chief of Staff of the Air Force (Logistics and Engineering) require a control measure be established in the automation program of the TDR that requires entry of pre-coded/approved initials in the remarks column of the record before the transaction is computed.


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SUBJECT: Draft Report on the Hotline Audit of the Consolidated
Personal Property Shipping Office, Frankfurt, Germany (Project No.
OLC-8009)

4. Corrective actions taken on the report's recommendations as given in paragraphs 2a, b and c above were initially part of the TDR SOP, 29, ~~enclosed~~ and made prior to receipt of the draft study. Corrective action taken on paragraph 2d is ~~enclosed~~ in a policy memorandum, 12. ~~HP~~ This policy was based on the draft study.

5. Point of Contact is the undersigned at ETS 325-6223/7645.

Encl


JAMES L. SCHNECK
LTC, TC
Chief, CPPSO-Frankfurt



DEPARTMENT OF THE AIR FORCE
OFFICE OF THE CHIEF OF STAFF
UNITED STATES AIR FORCE
WASHINGTON, D.C. 20330

29 MAY 1991

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on the Hotline Audit of the Consolidated
Personal Property Shipping Office, Frankfurt, Germany (Project No.
OLC-8009), INFORMATION MEMORANDUM

This is in reply to your memorandum for Assistant Secretary
of the Air Force (Financial Management and Comptroller) requesting
comments on the findings and recommendations made in subject
report.

We have reviewed the recommendation concerning the
documentation of changes made to the traffic distribution
percentages provided by Military Traffic Management Command in the
automation program, Traffic Distribution System (TRAFDIST). Based
on the audit, the Standard System Center has incorporated the
necessary software changes in version 7.0 of TRAFDIST, that was
released in April 1991.

A handwritten signature in cursive script, reading "Charles A. May, Jr.", is positioned above the typed name.

CHARLES A. MAY, JR., Lt General, USAF
Assistant Vice Chief of Staff

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REPORT OF POTENTIAL MONETARY AND OTHER
BENEFITS RESULTING FROM AUDIT

<u>Recommendation Reference</u>	<u>Description of Benefits</u>	<u>Amount and/or Type of Benefit</u>
1.a., 1.b., 1.c., 1.d., 2.	<u>Compliance With Regulation</u> Implementation of these recommendations would provide management controls to ensure that personal property shipments are distributed by the Consolidated Personal Property Shipping Office, Frankfurt, Germany, in accordance with DoD Regulation 4500.34-R.	<u>Undeterminable</u> Generally, more equitable distribution of shipments among prime and equalization carriers would not result in monetary benefits to DoD because the rates charged by these carriers are the same. However, favoritism to a specific carrier could discourage carriers from matching the primary carrier's low rate or doing business with DoD, thereby limiting the number of low cost carriers willing to move personal property shipments for DoD.

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ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Office of the Secretary of Defense (Production and Logistics),
Washington, DC

Department of the Army

Headquarters, U.S. Army - Europe, Heidelberg, Germany
Headquarters, V Corps, Frankfurt, Germany
Headquarters, Military Traffic Management Command,
Falls Church, VA
Consolidated Personal Property Shipping Office,
Frankfurt, Germany

Department of the Air Force

Office of the Secretary of the Air Force, Washington, DC
Headquarters, Air Force, Deputy Chief of Staff Logistics and
Engineering, Washington, DC
Air Force Communications Command, Scott Air Force Base, IL
Headquarters, Computer Systems Division, Gunter Air Force Base,
Montgomery, AL

Other Defense Activities

U.S. Commander in Chief, Europe, Stuttgart, Germany

Non-Government Activities

Household Goods Forwarders Association of America, Inc.,
Alexandria, VA
Johann Birkart International Forwarders GMBH and Co. KG,
Wiesbaden, Germany
Deuerling International Removals, Frankfurt, Germany
Viktoria Internationale Spedition, Aschaffenburg/Wiesbaden,
Germany
Biener GMBH International Mobiltransporte, Mulheim, Germany
J. Steineker Mobiltransporte, Hanau, Germany
J.B. Transportation Management GMBH, Bad Kreuznach, Germany
Transvan Internationale Transport GMBH, Hattersheim, Germany
FA Kultau GMBH and CO. KG, Glenhausen, Germany

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AUDIT TEAM MEMBERS

Shelton Young, Director, Logistics Support Directorate
John Gebka, Program Director
Albert Putnam, Project Manager
Rico Clarke, Auditor
Thomas Wright, Auditor
Dorothy Roberts, Auditor
Marvin Tuxhorn, Auditor
Hariett Lambert, Editor

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Commander, U.S. Army - Europe
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Secretary of the Air Force
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Comptroller)
Deputy Chief of Staff of the Air Force (Logistics and
Engineering)
Air Force Audit Agency

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Commander in Chief, U.S. Transportation Command
Director, Defense Logistics Studies Information Exchange

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U.S. General Accounting Office,
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Congressional Committees:

Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Senate Ranking Minority Member, Committee on Armed Services
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Ranking Minority Member, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security,
Committee on Government Operations

INTERNET DOCUMENT INFORMATION FORM

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Frankfurt, Germany

B. DATE Report Downloaded From the Internet: 07/25/00

**C. Report's Point of Contact: (Name, Organization, Address, Office
Symbol, & Ph #):** OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

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